

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

SOUTHERN INDIANA GAS AND)	
ELECTRIC COMPANY)	
d/b/a VECTREN ENERGY)	CAUSE NO. 43839
DELIVERY OF INDIANA, INC)	
(VECTREN SOUTH – ELECTRIC))	

DIRECT TESTIMONY

OF

APRIL M. PARONISH - PUBLIC'S EXHIBIT NO. 3

ON BEHALF OF

THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

JUNE 25, 2010

DIRECT TESTIMONY OF APRIL M. PARONISH
CAUSE NO. 43839
VECTREN ENERGY DELIVERY OF INDIANA, INC.

1 **Q: Please state your name and business address.**

2 A: My name is April M. Paronish and my business address is 115 West Washington
3 Street, Suite 1500 South, Indianapolis, Indiana 46204.

4 **Q: By whom are you employed and in what capacity?**

5 A: I am employed by the Indiana Office of Utility Consumer Counselor (OUCC) as a
6 Utility Analyst in the Resource Planning and Communications Division.

7 **Q: Please summarize your educational background and work experience.**

8 A: I graduated *summa cum laude* from Franklin University in Columbus, Ohio in 1992,
9 with a Bachelor of Science degree, majoring in Business Management. I also
10 received a Master of Science degree in Marketing and Communications from
11 Franklin University in 2002.

12 I held various positions at American Electric Power Service Corporation
13 (AEP) in Columbus, Ohio, between 1985 and 1996. My responsibilities included
14 involvement with developing a new accounting and customer service system for
15 seven AEP operating companies; technical writing for the Regulatory Affairs
16 Division of AEP's Nuclear Organization; reporting to management regarding
17 procedure updates, quality assurance audits, and matters relating to regulatory
18 compliance.

1 From 1998 to 2001 I worked as a Project Manager and Business Analyst for
2 3X Corporation, a computer consulting firm. As a 3X Corporation consultant to
3 AEP, I served as Project Lead, documenting and analyzing Transmission System
4 Operations business processes.

5 I led the Alliance RTO's Customer Registration Trial Team from 2001 until
6 its discontinuation in 2002. From 2003 to 2007 I was the Senior Stakeholder
7 Support Associate for the Midwest ISO. I served as the liaison between Midwest
8 ISO and both the Committee Restructuring Working Group and the Advisory
9 Committee, which had oversight of thirty-three (33) stakeholder committees and
10 provided advice to Midwest ISO's Board of Directors.

11 I have been employed at the OUCC since April 2007 as a Utility Analyst.
12 To date, my work at the OUCC has focused on demand side management (DSM)
13 and energy efficiency issues. I also serve as the OUCC's Regional Transmission
14 Organization (RTO) Project Manager and regularly attend Midwest ISO and PJM
15 Interconnection, LLC committee meetings. I have attended a number of in-house,
16 industry-sponsored and regulatory educational programs since joining the OUCC.
17 I attended the 2007 National Association of Regulatory Utility Commissioners
18 (NARUC) Regulatory Studies Program in East Lansing, Michigan as well as
19 several recent conferences sponsored by the Indiana Energy Association and by
20 the Indiana Industrial Energy Consumers, Inc. (INDIEC).

21 **Q: Have you previously testified before the Indiana Utility Regulatory**
22 **Commission ("IURC" or "Commission")?**

23 **A: Yes.**

I. INTRODUCTION

1 **Q: Please describe your experience and preparation as a basis for your**
2 **testimony and expert opinions in this Cause.**

3 A: Since 2007, I have participated in numerous collaborative meetings with Vectren
4 Energy Delivery of Indiana, Inc. (“Petitioner” or “Vectren South”), the OUCC and
5 other interested parties to discuss and formulate Vectren South’s DSM portfolio, as
6 filed in Cause No. 43427. I have reviewed Energy Efficiency Rider Update filings
7 for Vectren North Gas and Vectren South Gas (“Vectren Gas Indiana”).¹ I have
8 also participated in meetings with Vectren South to discuss issues related to this
9 Cause. Additionally, I have also reviewed Vectren South’s Petition, testimony and
10 related project documents in this Cause.

11 **Q: What is the purpose of your testimony in this Cause?**

12 A: I review Petitioner’s electric DSM programs² and explain the OUCC’s position
13 regarding these programs as they are presented in this Cause. I also discuss
14 certain findings with regard to lost base revenue attributable to the gas DSM
15 programs sponsored by Vectren Corporation’s two Indiana gas distribution
16 utilities (Vectren North and Vectren South – Gas).³ Finally, I compare the
17 savings and lost margins attributable to the Gas DSM Programs to the incremental
18 rate revenue from the gas decoupling mechanisms of Vectren Gas Indiana. This
19 comparison indicates that lost base revenue attributable to the Gas DSM Programs

¹ These filings were made pursuant to the IURC Orders in Vectren North Gas Cause Nos. 43046, 43298 and Vectren South Gas Cause Nos. 43046 and 43112.

² See IURC Cause No. 43427.

³ These programs will be collectively referred to as “the gas DSM programs.”

1 is relatively small when compared to the incremental revenue provided by the gas
2 decoupling mechanism.

II. VECTREN SOUTH'S ELECTRIC DSM PROGRAMS

3 **Q: Please describe the OUCC's involvement in the creation of the Vectren South**
4 **Electric DSM Programs?**

5 A: In 2006, a DSM Collaborative consisting of staff from Citizens Action Coalition,
6 Vectren South and the OUCC ("the Collaborative") was formed as a result of a
7 settlement reached in IURC Cause No. 42861.⁴ The Collaborative selected a
8 consultant to perform a Market Assessment and DSM Action Plan ("Peach
9 Report") for DSM Programs in Vectren South's electric service territory.⁵
10 Through extensive review and discussions of these documents, the Collaborative
11 reached agreement on programs, funding levels, program implementation, M&V,
12 reporting and oversight.⁶

13 **Q: Please provide an overview of Vectren South's Electric DSM programs.**

14 A: While the majority of the program elements were derived from the Peach Report,
15 Vectren South's case-in-chief testimony in Cause No. 43427 included certain
16 modifications⁷ to avoided cost calculations and program details. Vectren South
17 proposed a variety of residential and commercial DSM programs.

18 Residential program offerings included:

19 1) Direct Load Control (DLC);

20 2) On-Site Audits and Direct Install Kit;

⁴ The IURC approved this Settlement on February 22, 2006.

⁵ Forefront Economics and H. Gil Peach and Associates were selected to perform the market assessment and to develop a DSM action plan. The final report was submitted to the Collaborative on April 24, 2007.

⁶ See IURC Cause No. 43427.

⁷ See Testimony of Vectren South Witness Robert C. Sears, Cause No. 43427, pp. 9 – 10, which describe these modifications.

- 3) New Construction – Energy Star;
- 4) Low Income Weatherization;
- 5) Refrigerator Pick-up and Recycle;
- 6) Window Air Conditioning Pick-up and Recycle; and
- 7) Pool Pump Program.⁸

Commercial programs included:

- 1) Direct Load Control;
- 2) Audit and Customized Efficiency;
- 3) Commercial Lighting;
- 4) New Construction;
- 5) Premium Efficiency and Commutated Motors; and
- 5) Commercial Commissioning Pilot.⁹

Q: Please provide an overview of the OUCC's concerns.

A: As a result of the Commission's Order issued on December 9, 2009, in Phase II of its generic DSM investigation¹⁰ ("Phase II Order"), the Commission is requiring all electric utilities, including Vectren South, to offer a number of Core DSM programs. Further, in Cause No. 43427 Vectren South proposed a number of Core Plus DSM programs. The Commission approved incentives for Vectren South's proposed Core Plus DSM programs. Now, Vectren South is seeking approval for an electric decoupling mechanism which would guarantee Vectren South's fixed cost recovery. As currently proposed, this fixed cost recovery would

⁸ The Pool Pump Program will be introduced in year 2.

⁹ The Premium Efficiency and Commutated Motors program will be introduced in year 2.

¹⁰ See IURC Phase II Final Order, In the Matter of the Commission's Investigation into the Effectiveness of Demand Side Management Programs, Cause No.42693, issued December 9, 2009.

1 be in addition to the recovery of incentives that have previously been approved for
2 achieving those same energy efficiency targets. Care must be taken to ensure that
3 Vectren South's electric DSM programs do not become unduly expensive due to
4 cumulative effects of incentive and fixed cost recovery guaranteed through the
5 proposed decoupling.

6 **Q: In addition to these overriding concerns, what other specific concerns does the**
7 **OUCG have regarding Petitioner's proposed DSM offerings?**

8 A: We have the following additional concerns:

9 DLC Switch Inspection and Maintenance (I&M) –In Cause No. 43427, the OUCG
10 emphasized the need for separate tracking to ensure only new DLC program
11 participants and related costs are included in calculation of shareholder incentives,
12 so as not to artificially inflate those incentives.¹¹ In this Cause, Vectren South
13 Witness Robert Sears indicates Vectren South is proposing to separately track
14 I&M costs and participation in the new DLC program versus the existing
15 program.¹² The OUCG recommends the Commission find that only new DLC
16 participants be eligible for purposes of calculating shareholder incentives.

17 Low-Income Weatherization – The Commission's Phase II Order required the
18 establishment of Core Programs, including Low Income Weatherization. While
19 the Commission indicated that Core Programs do not qualify for incentives, it did
20 not specifically address whether unused funds could be eligible for redistribution

¹¹ Vectren did not receive IURC approval for shareholder incentives for its existing DLC Program.

¹² See Direct Testimony of Vectren South Witness Sears p. 19, lines 4-6 in this Cause.

1 to other programs.¹³ Although Petitioner did not address this issue within its Rate
2 Case testimony, it is an important issue to clarify. Program dollars allocated to
3 Core Programs that are not eligible for incentives should not be reallocated to
4 programs that are eligible for incentives.

5 Large Commercial and Small Industrial Customer Programs –The OUCC
6 recognizes the Peach Report addressed only residential and small commercial
7 customers with loads below 500 kW, and did not address whether additional
8 energy savings may be achieved if all customers were provided an opportunity to
9 participate in DSM programs. This is inconsistent with the finding made by the
10 IURC in its Phase I Order: “...[I]t would be inappropriate to limit our review of
11 DSM without further review of the potential impact and benefit that DSM can
12 play across all sectors.”

13 The Commission further observed that “...[C]ost-effective energy-savings
14 potential within the industrial sector needs to be considered before such decisions
15 can be made.”¹⁴ Therefore, the OUCC recommended that Vectren South research
16 options for large commercial and small industrial customers to develop programs
17 for those customer classes during Vectren South’s first DSM Program year.¹⁵
18 Vectren South agreed to do so, indicating these customers could “...provide
19 significant energy savings” and was “...agreeable to investigating voluntary

¹³ See IURC Phase II Final Order, Cause No.42693.

¹⁴ See IURC Phase I Final Order, In the matter of the Commission’s Investigation into the Effectiveness of Demand Side Management Programs, Cause No. 42693, issued April 23, 2008, p. 35.

¹⁵ See Testimony of OUCC Witness Paronish, Cause No. 43427, p. 7.

1 offerings to these customers.”¹⁶ Petitioner further agreed to bring these proposals
2 to the Oversight Board for review and indicated it would seek Commission
3 approval for incremental funding for those programs.¹⁷ Subsequent to these
4 filings, the Commission ordered all jurisdictional utilities to offer DSM programs
5 to the commercial and industrial sectors.¹⁸

6 However, to date, Vectren South has not yet informed its DSM Electric
7 Oversight Board of studies, or plans for studies, related to offering DSM
8 programs to its large commercial and industrial customers. This study would
9 provide valuable insight into these sectors, which would aid all stakeholders in
10 deciding whether additional programs are warranted. The Commission should
11 require Vectren South to provide such studies to the DSM Electric Oversight
12 Board no later than 90 days from the date of the final order in this proceeding.

13 **III. VECTREN GAS INDIANA GAS DECOUPLING RESULTS**

14 **Q: When did Vectren Gas Indiana begin to offer natural gas efficiency**
15 **programs?**

16 **A:** On December 1, 2006 the IURC approved energy efficiency programs and a
17 decoupling mechanism – the Sales Reconciliation Component (SRC) - as detailed
18 in the Settlement Agreement filed in Cause No. 43046.¹⁹

19

¹⁶ See Rebuttal Testimony of Vectren South Witness Sears, Cause No. 43427, p. 14.

¹⁷ *Id.*

¹⁸ See IURC Phase II Final Order, Cause No. 42693, pp. 30 and 36.

¹⁹ See IURC Final Orders in Cause Nos. 42943 and 43046.

1 **Q: Did the Settlement Agreement limit the time for which these programs and**
2 **Energy Efficiency Rider (EER) may be offered?**

3 **A:** Yes. The period was limited to a five-year pilot period to allow "...complete
4 financial results, costs and risks, as well as the efficacy of the Program and EER,
5 be reviewed.”²⁰

6 **Q: When is the review of the Energy Efficiency Program and SRC scheduled to**
7 **occur?**

8 **A:** The Settling Parties agreed to thoroughly review the EER "...no later than three
9 (3) years from the start date of the Program.”²¹

10 **Q: Has the OUCC conducted a review of the initial results of years one through**
11 **three of the program and SRC?**

12 **A:** Yes.

13 **Q: In Cause No. 43046, what benefits did Vectren Gas Indiana give in**
14 **concluding the SRC was in the public interest?**

15 **A:** In support of the SRC, Vectren Gas Indiana Witness Jerome A. Benkert, Jr.
16 stated, "efficiency benefits will include reduced customer bills, economic
17 development benefits related to the provision of efficiency products and services
18 and potentially reduced commodity prices.”²²

19 **Q: What energy savings have resulted from these natural gas efficiency**
20 **programs?**

21 **A:** Vectren Gas Indiana estimates that, since inception, its programs have resulted in
22 savings of 4.9 million net therms.²³

²⁰ See Settlement Agreement, Cause No. 43046, p. 24.

²¹ See Settlement Agreement, Cause No. 43046, p. 25. The three year period ended December 2009.

²² See Settlement Testimony of Vectren Gas Indiana Witness Jerome A. Benkert, Jr., Cause No. 42943, p. 5, lines 18-20.

²³ See Direct Testimony of Witness Sears, p. 6, line 14 in this Cause.

1 **Q: What is the magnitude of Vectren Gas Indiana's recovery from its**
 2 **ratepayers through the SRC mechanism since its rates have been decoupled?**

3 **A:** Through September 2009, the OUCC estimates Vectren Gas Indiana's SRC netted
 4 \$13,576,929.²⁴

5 **Q: What is the OUCC's estimate of the amount that Vectren Gas Indiana would**
 6 **have collected from ratepayers had it been authorized to receive lost base**
 7 **revenue instead of a decoupled rate?**

8 **A:** The OUCC's analysis for the period of December 1, 2006 through September 30,
 9 2009, revealed that Vectren Gas Indiana would have received only \$1,065,093
 10 had it recovered lost base revenue attributable to its gas DSM program.²⁵
 11 Therefore, as a result of decoupling, Vectren Gas Indiana has recovered an
 12 additional amount of over \$12.5 million from ratepayers during this 3 year period.

13 **Q: In addition to this \$12.5 million, do Vectren Gas Indiana's energy efficiency**
 14 **programs qualify for shareholder incentives?**

15 **A:** No, not at this time.

16 **Q: Do Vectren South's electric DSM programs qualify for shareholder**
 17 **incentives?**

18 **A:** Yes, shareholder incentives are available on its Core Plus Programs as follows:²⁶

% of Target Achieved	Incentive Amount
0%-49%	-4%
50%-64%	0
65%-74%	2%
75%-89%	4%
90%-99%	8%
100%-120%	12%

19

²⁴ See OUCC Witness April Paronish, Exhibit AMP-1.

²⁵ See OUCC Witness Ms. Paronish, Exhibit AMP-2.

²⁶ See IURC Final Order in Cause No. 43427.

1 **Q: Is Vectren South seeking this shareholder incentive in addition to its**
2 **proposed decoupling mechanism?**

3 **A:** Yes. As illustrated in the table above, if Vectren South only achieves 65% of its
4 target for DSM, it would receive an incentive equal to 2% of its DSM program
5 budget. Should it successfully achieve 100% of its target, this incentive would
6 increase to 12%. This level of recovery would be in addition to the guaranteed
7 fixed cost recovery under the proposed electric decoupling mechanism in this
8 proceeding.

IV. CONCLUSION

9 **Q: Based on your analysis of Vectren Gas Indiana, do you have any concerns**
10 **regarding Vectren South's decoupling proposal in this Cause?**

11 **A:** Yes, costs for gas service are primarily variable (the cost of gas), with a small
12 fixed cost (operation and maintenance and capital cost for a system of pipelines
13 and meters). As Vectren Gas Indiana Witness Mr. Benkert noted in Cause No.
14 42943:

15 When a residential [gas] customer opens their monthly bill in the
16 heating season, 80% of that bill consists of gas cost. Of the
17 remaining 20%, a portion will be contained in the set monthly
18 service charge, and the remaining portion will be volumetric. The
19 SRC will adjust only the small fractional portion of the customer's
20 bill representing recovery of Vectren Energy's costs of service.²⁷

21 The costs associated with electric service; however, are primarily fixed
22 with a relatively low variable charge.

23 Experience has shown Vectren Gas Indiana has already received a
24 significant windfall with decoupled gas rates. Because Vectren South's ratio of

²⁷ See Settlement Testimony of Vectren Gas Indiana Witness Mr. Benkert, Cause No. 42943, p. 10, lines 6-12.

1 fixed to variable costs for electric service are much greater than Vectren Gas
2 Indiana's for gas service, should similar results occur, the magnitude of the over
3 recovery from ratepayers will be on a much greater scale. This concern is further
4 compounded by the incentives that would be awarded to Vectren South for
5 achieving those same goals. OUCC Witness Dr. David Dismukes will present the
6 OUCC's decoupling concerns to the Commission in his testimony.

7 **Q: What action does the OUCC recommend to the Commission in this Cause?**

8 A: The OUCC recommends the Commission deny Vectren South's request to
9 decouple its electric rates. Instead, the OUCC urges the Commission to consider a
10 more balanced alternative in regard to Vectren South's DSM programs as
11 exemplified by the Efficiency Incentive Mechanism proposed by OUCC Witness
12 Dr. David Dismukes.

13 **Q: Does this conclude your testimony?**

14 A: Yes.

Exhibit AMP-1

**Vectren Gas Indiana
SRC Revenue**

Vectren South Gas

Period	Rate 110	Rates 120/125	Total
2008	\$596,680	\$140,501	\$737,181 ¹
2009 ²	\$314,763	\$(33,515)	\$281,248 ³
Total	\$911,443	\$106,986	\$1,018,429

Vectren North Gas

Period	Rate 210	Rates 220/225	Total
2007	\$631,435	\$22,176	\$653,611 ⁴
2008	\$7,481,308	\$670,720	\$8,152,028 ⁵
2009 ⁶	\$3,762,759	\$(9,989)	\$3,752,861 ⁷
Total	\$11,875,502	\$682,998	\$12,558,500

Total Vectren Gas Indiana: \$13,576,929

¹ Calculated using Vectren South Gas 30-Day filing on February 22, 2007, per Cause No. 43046 page 2, line 3 “Total SRC Requirement)

² Estimated for period of January through September 2009

³ Calculated using Vectren South Gas 30-Day filing on March 16, 2010, per Cause Nos. 43046 & 43112 p. 3 line 4 and p. 4 lines 1-3 and 5-10.

⁴ Calculated using Vectren North Gas 30-Day filing, per Cause No. 43046, p. 3 line 2 “Current Deferred SRC.”

⁵ Calculated using Vectren North Gas 30-Day filing on February 22, 2007, per Causes No. 43046, p. 2, line 3 “Total SRC Requirement.”

⁶ Estimated for period of January through September 2009.

⁷ Calculated using Vectren North Gas 30-Day filing on March 1, 2010, per Cause Nos. 43046 & 43298, p. 3 line 4 and p. 4 lines 1-3 and lines 5-10.

Exhibit AMP-2
Vectren Gas DSM Programs
Lost Base Revenue Estimates

Calculation of Base Revenue

Line			Vectren North		Vectren South		VED Total	
			A ¹	B ²	C ³	D ⁴	E = A+C	F = B+D
			Rate Case 42598 Approved 10/13/04	Rate Case 43298 Approved 1/25/08	Rate Case 42596 Approved 6/30/04	Rate Case 43112 Approved 8/1/07	Older Rate Cases Before 2008	Newer Rate Cases 2008 forward
1	Base Rate Sales, Total	Therms	1,034,209,835	926,220,385	319,213,876	251,807,742	1,353,423,711	1,178,028,127
2	Base Revenue, Total	\$\$	\$ 226,929,628	\$ 232,605,240	\$ 35,269,182	\$ 38,795,255	\$ 262,198,810	\$ 271,400,495
3	VED Base Revenue, Total (L2/L1)	\$/Therm					\$ 0.1937	\$ 0.2304

Reductions in Gas Consumption

DSM Program Results, DR27 Q-1 Response

Program Year Dec 1 - Nov 30

			VED, Annual		VED, Running Totals	
			Gross Reduction Therms	Net Reduction Therms	Gross Reduction Therms	Net Reduction Therms
			A	B	C	D
4	PY Dec 1 '06 - Nov 30 '07	Therms	1,142,135	739,289	1,142,135	739,289
5	PY Dec 1 '07 - Nov 30 '08	Therms	1,225,002	728,474	2,367,137	1,467,763
6	YTD Dec 1 '08 - Sept 30 '09	Therms	1,821,891	1,301,149	4,189,028	2,768,912
7	Program Totals	Therms	4,189,028	2,768,912		
8	Cumulative Therm Reduction	Therms			7,698,300	4,975,964

Lost Base Revenue

DSM Program Results, DR27 Q-1 Response

			VED, Annual		VED, Running Totals	
			Gross Lost Revenue	Net Lost Revenue	Gross Lost Revenue	Net Lost Revenue
			A	B	C	D
9	PY Dec 1 '06 - Nov 30 '07 [L4*(Col E, L3)]	\$\$	\$ 221,266	\$ 143,222	\$ 221,266	\$ 143,222
10	PY Dec 1 '07 - Nov 30 '08 [L5*(Col F, L3)]	\$\$	\$ 282,223	\$ 167,830	\$ 503,488	\$ 311,052
11	YTD Dec 1 '08 - Sept 30 '09 [L6*(Col F, L3)]	\$\$	\$ 419,737	\$ 299,766	\$ 923,226	\$ 610,818
12	Cumulative Lost Base Revenue	\$\$			\$ 1,647,980	\$ 1,065,093

¹ IURC 42598, Petitioner's Exhibit JLU-S4

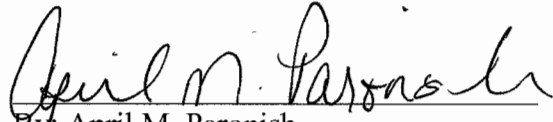
² IURC Cause No. 43298, Petitioner's Exhibit SEA-LF, Schedule 3. Page 1 of 2.

³ IURC Cause No. 42596, Petitioner's Exhibit JLU-4

⁴ IURC Cause No. 43112, Petitioner's Exhibit SEA-5S

AFFIRMATION

I affirm, under the penalties for perjury, that the foregoing representations are true.

A handwritten signature in black ink, appearing to read "April M. Paronish", is written over a horizontal line.

By: April M. Paronish
Indiana Office of
Utility Consumer Counselor

June 25, 2010

Date

Cause No. 43839